

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT OF THE
ROCKCASTLE COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Rockcastle County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Rockcastle County Fiscal Court. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Rockcastle County's major federal program: Chemical Stockpile Emergency Preparedness Program - CFDA #97.040.

Financial Condition:

The Rockcastle County Fiscal Court had total receipts of \$9,040,690 and disbursements of \$9,925,979 in fiscal year 2015. This resulted in a total ending fund balance of \$710,690, which is an increase of \$209,319 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Did Not Advertise For Bids On All Purchases That Exceed \$20,000
- 2015-002 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2015-003 The Fiscal Court Did Not Ensure All Timesheets Were Prepared And Approved Prior To Payment
- 2015-004 Deposits To The Jail Commissary Account Were Not Adequately Supported
- 2015-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2015
- 2015-006 The Jailer Did Not Establish Procedures To Reconcile Book And Bank Balances On A Monthly Basis
- 2015-007 The Jailer Failed To Maintain Required Accounting Records For The Inmate Account
- 2015-008 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

Deposits:

Fiscal court deposits were insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
ROCKCASTLE COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	6
NOTES TO FINANCIAL STATEMENT	10
BUDGETARY COMPARISON SCHEDULES	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES	34
SCHEDULE OF CAPITAL ASSETS	37
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	38
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	41
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	42
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	45
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	53
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Doug Bishop, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Rockcastle County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Rockcastle County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Doug Bishop, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Rockcastle County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Rockcastle County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Rockcastle County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Rockcastle County Fiscal Court. The budgetary comparison schedules, capital asset schedule, and the Schedule of Expenditure of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
 William M. Landrum III, Secretary
 Finance and Administration Cabinet
 Honorable Doug Bishop, Rockcastle County Judge/Executive
 Members of the Rockcastle County Fiscal Court

Other Matters (Continued)

Supplementary Information (Continued)

The accompanying budgetary comparison schedules, capital asset schedule, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2016 on our consideration of Rockcastle County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rockcastle County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying Schedule of Findings and Questioned Costs included herein, which discusses the following report comments:

- 2015-001 The Fiscal Court Did Not Advertise For Bids On All Purchases That Exceed \$20,000
- 2015-002 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements
- 2015-003 The Fiscal Court Did Not Ensure All Timesheets Were Prepared And Approved Prior To Payment
- 2015-004 Deposits To The Jail Commissary Account Were Not Adequately Supported
- 2015-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2015
- 2015-006 The Jailer Did Not Establish Procedures To Reconcile Book And Bank Balances On A Monthly Basis
- 2015-007 The Jailer Failed To Maintain Required Accounting Records For The Inmate Account
- 2015-008 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

March 22, 2016

ROCKCASTLE COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Doug Bishop	County Judge/Executive
Gary Burdette	Magistrate
Shannon Bishop	Magistrate
Michael McGuire	Magistrate
William Denny	Magistrate
Bill McKinney	Magistrate

Other Elected Officials:

William D. Reynolds	County Attorney
Carlos McClure	Jailer
Danetta Ford Allen	County Clerk
Eliza York	Circuit Court Clerk
Michael Peters	Sheriff
Janet Vaughn	Property Valuation Administrator
Marvin Owens	Coroner

Appointed Personnel:

Joseph B. Clontz	County Treasurer
Patricia Martin	Chief Financial Officer

ROCKCASTLE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

ROCKCASTLE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 2,734,702	\$	\$
In Lieu Tax Payments	20,374	32,930	
Excess Fees	55,396		
Licenses and Permits	18,239		
Intergovernmental	382,244	1,590,650	808,825
Charges for Services	12,556		23,733
Miscellaneous	463,632	31,255	22,742
Interest	2,174	460	226
Total Receipts	<u>3,689,317</u>	<u>1,655,295</u>	<u>855,526</u>
DISBURSEMENTS			
General Government	1,254,449	18,000	
Protection to Persons and Property	798,727		1,039,015
General Health and Sanitation	107,697		
Social Services	20,325		
Recreation and Culture	741,205		
Roads		1,227,740	
Bus Services			
Other Transportation Facilities and Services			
Debt Service	807,958	182,121	104,248
Capital Projects	57,941		
Administration	346,226	220,290	262,994
Total Disbursements	<u>4,134,528</u>	<u>1,648,151</u>	<u>1,406,257</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(445,211)</u>	<u>7,144</u>	<u>(550,731)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money	400,000		
Capital Lease Proceeds	695,000		
Transfers From Other Funds	256,129	150,000	600,000
Transfers To Other Funds	(776,800)	(150,000)	
Total Other Adjustments to Cash (Uses)	<u>574,329</u>	<u></u>	<u>600,000</u>
Net Change in Fund Balance	129,118	7,144	49,269
Fund Balance - Beginning	157,030	215,100	27,561
Fund Balance - Ending	<u>\$ 286,148</u>	<u>\$ 222,244</u>	<u>\$ 76,830</u>
Composition of Fund Balance			
Bank Balance	\$ 315,673	\$ 231,856	\$ 85,426
Less: Outstanding Checks	<u>(29,525)</u>	<u>(9,612)</u>	<u>(8,596)</u>
Fund Balance - Ending	<u>\$ 286,148</u>	<u>\$ 222,244</u>	<u>\$ 76,830</u>

The accompanying notes are an integral part of the financial statement.

ROCKCASTLE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds					
Local Government Economic Assistance Fund	Forestry Fund	Fairgrounds Fund	911 Fund	Local Economic Planning Committee Fund	Chemical Stockpile Emergency Preparedness Program Fund
\$	\$ 1,775	\$	\$ 247,176	\$	\$
280,863			63,000	819	1,967,452
25,318		12,914	900		996
75	4		154		
306,256	1,779	12,914	311,230	819	1,968,448
51,843					
105,405	2,555		203,089	222	1,896,067
86,057					
		14,128			
15,566					
41,629			57,641	180	24,339
300,500	2,555	14,128	260,730	402	1,920,406
5,756	(776)	(1,214)	50,500	417	48,042
25,000	800	1,000			
			(63,000)		(43,129)
25,000	800	1,000	(63,000)		(43,129)
30,756	24	(214)	(12,500)	417	4,913
10,226	459	2,627	50,048	1,503	10,182
\$ 40,982	\$ 483	\$ 2,413	\$ 37,548	\$ 1,920	\$ 15,095
\$ 41,256	\$ 483	\$ 2,504	\$ 37,593	\$ 2,085	\$ 30,109
(274)		(91)	(45)	(165)	(15,014)
\$ 40,982	\$ 483	\$ 2,413	\$ 37,548	\$ 1,920	\$ 15,095

The accompanying notes are an integral part of the financial statement.

ROCKCASTLE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	<u>Unbudgeted Funds</u>	
	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS		
Taxes	\$	\$ 2,983,653
In Lieu Tax Payments		53,304
Excess Fees		55,396
Licenses and Permits		18,239
Intergovernmental		5,093,853
Charges for Services		36,289
Miscellaneous	119,553	796,863
Interest		3,093
Total Receipts	<u>119,553</u>	<u>9,040,690</u>
DISBURSEMENTS		
General Government		1,324,292
Protection to Persons and Property		4,045,080
General Health and Sanitation		193,754
Social Services		20,325
Recreation and Culture	119,161	993,655
Roads		1,227,740
Bus Services		15,566
Other Transportation Facilities and Services		
Debt Service		1,094,327
Capital Projects		99,570
Administration		911,670
Total Disbursements	<u>119,161</u>	<u>9,925,979</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>392</u>	<u>(885,681)</u>
Other Adjustments to Cash (Uses)		
Borrowed Money		400,000
Capital Lease Proceeds		695,000
Transfers From Other Funds		1,032,929
Transfers To Other Funds		(1,032,929)
Total Other Adjustments to Cash (Uses)	<u></u>	<u>1,095,000</u>
Net Change in Fund Balance	392	209,319
Fund Balance - Beginning	26,635	501,371
Fund Balance - Ending	<u>\$ 27,027</u>	<u>\$ 710,690</u>
Composition of Fund Balance		
Bank Balance	\$ 29,777	\$ 776,762
Less Outstanding Checks	<u>(2,750)</u>	<u>(66,072)</u>
Ending Fund Balance	<u>\$ 27,027</u>	<u>\$ 710,690</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS	13
NOTE 3.	TRANSFERS	13
NOTE 4.	AGENCY TRUST FUNDS.....	14
NOTE 5.	LONG-TERM DEBT.....	14
NOTE 6.	SHORT-TERM DEBT	18
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	18
NOTE 8.	DEFERRED COMPENSATION	20
NOTE 9.	HEALTH REIMBURSEMENT ACCOUNT/FLEXIBLE SPENDING ACCOUNT	20
NOTE 10.	INSURANCE.....	21
NOTE 11.	RELATED PARTY TRANSACTIONS	21
NOTE 12.	PRIOR PERIOD ADJUSTMENTS	21

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Rockcastle County includes all budgeted and unbudgeted funds under the control of the Rockcastle County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The following entity: Rockcastle County Industrial Development Authority would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. However under the regulatory basis it is no longer a required component of the reporting entity.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Forestry Fund - The primary purpose of this fund is to account for the forestry expenses of the county. The primary source of receipts for this fund is through state grants.

Fairgrounds Fund - The primary purpose of this fund is to account for fairground expenses of the county. The primary source of receipts for this fund is through leasing or rental of property.

911 Fund - The primary purpose of this fund is to account for emergency personnel of the county. The primary source of the receipts for this fund is through telephone fees collected.

Local Emergency Planning Committee (LEPC) - The primary purpose of this fund is to account for emergency planning expenses of the county. The primary source of receipts for this fund is state grants.

Chemical Stockpile Emergency Preparedness Program Fund (CSEPP) - The primary purpose of this fund is to account for emergency equipment and personnel expenses of the county. The primary sources of receipts for this fund are federal and state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

E. Rockcastle County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Rockcastle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Rockcastle County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	911 Fund	CSEPP Fund	Total Transfers In
General Fund	\$	\$ 150,000	\$ 63,000	\$ 43,129	\$ 256,129
Road Fund	150,000				150,000
Jail Fund	600,000				600,000
LGEA Fund	25,000				25,000
Forestry Fund	800				800
Fairgrounds Fund	1,000				1,000
Total Transfers Out	<u>\$ 776,800</u>	<u>\$ 150,000</u>	<u>\$ 63,000</u>	<u>\$ 43,129</u>	<u>\$ 1,032,929</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Agency Trust Funds

Trust funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments.

The fiscal court has the following agency trust fund:

Jail Inmate Fund - This fund accounts for funds received from inmates. The balance in the Jail Inmate Fund bank accounts as of June 30, 2015 was \$16,304.

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2007

Rockcastle County Fiscal Court issued obligations of \$1,325,000 dated April 12, 2007 and payable in 19 annual installments beginning June 1, 2007 and semi-annual interest payments on the first of June and December at varying rates from 4.1% to 4.55%. Fiscal Court issued the bonds for the purpose of refinancing the Kentucky Area Development Districts Financing Trust Debt, issued for the purpose of refinancing jail renovations and a fire truck for Brindle Ridge Fire Department. As of June 30, 2015, bonds outstanding were \$810,000. Scheduled principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 70,000	\$ 36,453
2017	70,000	33,372
2018	75,000	30,292
2019	80,000	26,993
2020	80,000	23,393
2021-2025	435,000	60,287
Totals	<u>\$ 810,000</u>	<u>\$ 210,790</u>

B. Financing Obligation – Land Purchase

On May 18, 2009, Rockcastle County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program to purchase land. Principal on the agreement was \$2,500,000, with a variable rate of interest. Monthly principal and interest payments are scheduled for a period of twenty (20) years. The principal balance outstanding as of June 30, 2015 was \$974,766. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 108,000	\$ 40,335
2017	108,000	35,734
2018	113,000	31,116
2019	120,000	26,112
2020	120,000	21,039
2021-2023	405,766	30,158
Totals	<u>\$ 974,766</u>	<u>\$ 184,494</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

C. Financing Obligation – Fire Truck Lease

On November 13, 2007, Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a fire truck for the Livingston Fire Department. Principal on the agreement was \$65,000, with an effective interest rate of 4.56%. Monthly principal and interest payments are scheduled for a period of ten years. The principal balance outstanding as of June 30, 2015 was \$17,792. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 7,185	\$ 818
2017	7,434	518
2018	3,173	124
Totals	<u>\$ 17,792</u>	<u>\$ 1,460</u>

D. Financing Obligation – Road Resurfacing

On June 22, 2009, Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of resurfacing roads. Principal on the agreement was \$2,000,000, with an effective interest rate of 3% for a period of 15 years, with principal and interest payments scheduled monthly. The principal balance outstanding as of June 30, 2015 was \$1,227,560. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 131,661	\$ 50,460
2017	137,379	44,742
2018	143,324	38,797
2019	149,540	32,581
2020	155,987	26,134
2021-2023	509,669	36,696
Totals	<u>\$ 1,227,560</u>	<u>\$ 229,410</u>

E. Anchor Building

On April 12, 2012, Rockcastle County Fiscal Court entered into a capital lease agreement with Fifth Third Bank for the purpose of purchasing a building. Principal on the agreement was \$3,000,000, with an effective interest rate of 4.55%. Monthly principal and interest payments are scheduled for a period of 20 years. The principal balance outstanding as of June 30, 2015 was \$2,651,343.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

E. Anchor Building (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 111,120	\$ 71,524
2017	116,880	68,396
2018	122,640	65,109
2019	128,400	61,664
2020	134,160	58,060
2021-2022	<u>2,038,143</u>	<u>96,559</u>
Totals	<u>\$ 2,651,343</u>	<u>\$ 421,312</u>

F. Financing Obligation – Industrial Authority

The Rockcastle County Industrial Development Authority entered into a loan with Community Trust Bank to construct a building. Principal on the loan was \$2,700,000, with an interest rate of 4%. Monthly principal and interest payments are scheduled for a period of 15 years. The principal balance outstanding as of June 30, 2015 was \$1,205,586. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 152,063	\$ 44,808
2017	157,080	39,791
2018	162,262	34,610
2019	167,614	29,257
2020	173,144	23,408
2021-2024	<u>393,423</u>	<u>37,135</u>
Totals	<u>\$ 1,205,586</u>	<u>\$ 209,009</u>

G. Financing Obligation – Land and Houses

On August 28, 2014, Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Finance Corporation to purchase land and two houses to be leased to the Kentucky Country Music Hall of Fame. Principal on the agreement was \$415,000 with variable interest rates between 3.00% and 3.75%. Monthly principal and interest payments are scheduled for a period of 25 years. The principal balance outstanding as of June 30, 2015, was \$400,000. Future principal and interest requirements are:

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

G. Financing Obligation – Land and Houses (Continued)

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 10,000	\$ 13,213
2017	10,000	12,913
2018	12,500	12,613
2019	15,000	12,238
2020	15,000	11,788
2021-2025	75,000	52,188
2026-2030	82,500	40,782
2031-2035	100,000	25,576
2036-2039	80,000	7,125
Totals	<u>\$ 400,000</u>	<u>\$ 188,436</u>

H. Financing Obligation – Fire Trucks and Equipment

On December 14, 2014, Rockcastle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust to purchase fire trucks and miscellaneous equipment. Principal on the agreement was \$280,000 with a fixed rate of interest at 3.15%. Monthly principal and interest payments are scheduled for a period of five years. The principal balance outstanding as of June 30, 2015, was \$254,206. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 53,422	\$ 9,079
2017	55,129	6,939
2018	56,891	47,299
2019	58,709	24,499
2020	30,054	347
	<u>\$ 254,206</u>	<u>\$ 88,163</u>

I. Changes In Long-term Debt

Long-term Debt activity for fiscal year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 875,000	\$	\$ 65,000	\$ 810,000	\$ 70,000
Financing Obligations	6,682,444	695,000	646,191	6,731,253	573,451
Total Long-term Debt	<u>\$ 7,557,444</u>	<u>\$ 695,000</u>	<u>\$ 711,191</u>	<u>\$ 7,541,253</u>	<u>\$ 643,451</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Short-term Debt

A. Financing Obligation – Kentucky Country Music Hall of Fame

In July 2014, Rockcastle County Fiscal Court obtained a short-term loan with Melon Bank of New York through the Kentucky Association of Counties in anticipation of closing on a capital lease-purchase agreement for land and two houses from the Kentucky Country Music Hall of Fame. The amount of the loan was \$400,000 with an interest rate of 5.45%. The term of the loan was 90 days. In August 2014, Fiscal Court closed on the lease-purchase agreement (Note 5. G.) and the proceeds of that agreement were used to pay off the \$400,000 short-term loan.

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Financing Obligation	\$	\$ 400,000	\$ 400,000	\$
Total Short-term Debt	<u>\$ 0</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 0</u>

Note 7. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous *and hazardous duty* positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

A. Plan Description (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$417,767, FY 2014 was \$410,475, and FY 2015 was \$391,379.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

A. Plan Description (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Rockcastle County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous Totals	<u>\$ 3,690,000</u>	<u>\$ 3,261,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

In June 1990, Rockcastle County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 9. Health Reimbursement Account/Flexible Spending Account

Rockcastle County Fiscal Court (the County), in Fiscal Court Order No. 10 established a health reimbursement account on October 1, 2011 to provide employees an additional health benefit. The County has contracted with a third-party administrator, Administrative Information Management Incorporated (AIM), to administer the plan. The plan includes a debit card to each eligible employee providing \$500 per year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

Note 10. Insurance

For the fiscal year ended June 30, 2015, Rockcastle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Related Party Transactions

A. Brodhead Farm Equipment

During the fiscal year ending June 30, 2015, Rockcastle County Fiscal Court paid \$18,215 to Brodhead Farm Equipment for equipment and supplies. Brodhead Farm Equipment is owned by Magistrate Bill McKinney's brother.

B. Rose Hill Auto Sales

During the fiscal year ending June 30, 2015, The Rockcastle County Jail Commissary purchased two vehicles for \$20,595 (including gas and delivery fees) from Rose Hill Auto Sales, an auto dealership owned by the Jailer.

Note 12. Prior Period Adjustments

Capital Assets:

Ending Capital Asset Balance Prior Year	\$ 24,837,031
Less: Amount to exclude assets below County's \$10,000 threshold and correct a valuation error	<u>(212,155)</u>
Restated Capital Assets as of June 30, 2014	<u><u>\$ 24,624,876</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,427,325	\$ 2,739,093	\$ 2,734,702	\$ (4,391)
In Lieu Tax Payments	10,500	30,874	20,374	(10,500)
Excess Fees	43,411	55,396	55,396	
Licenses and Permits	19,000	19,091	18,239	(852)
Intergovernmental	325,400	426,736	382,244	(44,492)
Charges for Services	13,170	13,170	12,556	(614)
Miscellaneous	341,666	477,917	463,632	(14,285)
Interest	2,500	2,500	2,174	(326)
Total Receipts	3,182,972	3,764,777	3,689,317	(75,460)
DISBURSEMENTS				
General Government	997,285	1,302,211	1,254,449	47,762
Protection to Persons and Property	256,029	873,201	798,727	74,474
General Health and Sanitation	114,415	129,043	107,697	21,346
Social Services	28,265	34,765	20,325	14,440
Recreation and Culture	133,000	749,100	741,205	7,895
Debt Service	618,568	440,512	807,958	(367,446)
Capital Projects		57,941	57,941	
Administration	796,705	494,363	346,226	148,137
Total Disbursements	2,944,267	4,081,136	4,134,528	(53,392)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	238,705	(316,359)	(445,211)	(128,852)
Other Adjustments to Cash (Uses)				
Borrowed Money			400,000	400,000
Capital Lease Proceeds		680,000	695,000	15,000
Transfers From Other Funds		256,129	256,129	
Transfers To Other Funds	(598,705)	(776,800)	(776,800)	
Total Other Adjustments to Cash (Uses)	(598,705)	159,329	574,329	415,000
Net Change in Fund Balance	(360,000)	(157,030)	129,118	286,148
Fund Balance Beginning	360,000	157,030	157,030	
Fund Balance - Ending	\$ 0	\$ 0	\$ 286,148	\$ 286,148

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 46,500	\$ 46,500	\$ 32,930	\$ (13,570)
Intergovernmental	1,488,058	1,677,137	1,590,650	(86,487)
Miscellaneous	26,000	51,311	31,255	(20,056)
Interest	700	700	460	(240)
Total Receipts	1,561,258	1,775,648	1,655,295	(120,353)
DISBURSEMENTS				
General Government	18,000	18,000	18,000	
Roads	836,650	1,258,686	1,227,740	30,946
Debt Service	183,125	183,125	182,121	1,004
Administration	548,483	530,937	220,290	310,647
Total Disbursements	1,586,258	1,990,748	1,648,151	342,597
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(25,000)	(215,100)	7,144	222,244
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		150,000	150,000	
Transfers To Other Funds		(150,000)	(150,000)	
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance	(25,000)	(215,100)	7,144	222,244
Fund Balance Beginning	25,000	215,100	215,100	
Fund Balance - Ending	\$ 0	\$ 0	\$ 222,244	\$ 222,244

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 828,865	\$ 843,959	\$ 808,825	\$ (35,134)
Charges for Services	7,500	24,733	23,733	(1,000)
Miscellaneous	7,500	22,742	22,742	
Interest	125	226	226	
Total Receipts	843,990	891,660	855,526	(36,134)
DISBURSEMENTS				
Protection to Persons and Property	977,100	1,060,413	1,039,015	21,398
Debt Service	99,480	104,480	104,248	232
Administration	263,063	354,328	262,994	91,334
Total Disbursements	1,339,643	1,519,221	1,406,257	112,964
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(495,653)	(627,561)	(550,731)	76,830
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	465,653	600,000	600,000	
Total Other Adjustments to Cash (Uses)	465,653	600,000	600,000	
Net Change in Fund Balance				
	(30,000)	(27,561)	49,269	76,830
Fund Balance Beginning	30,000	27,561	27,561	
Fund Balance - Ending				
	\$ 0	\$ 0	\$ 76,830	\$ 76,830

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 215,000	\$ 280,863	\$ 280,863	\$
Miscellaneous	3,500	26,032	25,318	(714)
Interest	150	150	75	(75)
Total Receipts	218,650	307,045	306,256	(789)
DISBURSEMENTS				
General Government	48,601	56,769	51,843	4,926
Protection to Persons and Property	107,251	108,684	105,405	3,279
General Health and Sanitation	72,025	103,777	86,057	17,720
Social Services	1,500	1,500		
Recreation and Culture	11,000	11,000		11,000
Roads	71,600	18,187	15,566	2,621
Administration	54,025	42,354	41,629	725
Total Disbursements	366,002	342,271	300,500	40,271
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(147,352)	(35,226)	5,756	39,482
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	132,352	25,000	25,000	
Total Other Adjustments to Cash (Uses)	132,352	25,000	25,000	
Net Change in Fund Balance	(15,000)	(10,226)	30,756	40,982
Fund Balance Beginning	15,000	10,226	10,226	
Fund Balance - Ending	\$ 0	\$ 0	\$ 40,982	\$ 40,982

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

FORESTRY FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,850	\$ 1,850	\$ 1,775	\$ (75)
Interest	10	10	4	(6)
Total Receipts	1,860	1,860	1,779	(81)
DISBURSEMENTS				
Protection to Persons and Property	2,560	2,560	2,555	5
Administration	300	559		559
Total Disbursements	2,860	3,119	2,555	564
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,000)	(1,259)	(776)	483
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	700	800	800	
Total Other Adjustments to Cash (Uses)	700	800	800	
Net Change in Fund Balance	(300)	(459)	24	483
Fund Balance Beginning	300	459	459	
Fund Balance - Ending	\$ 0	\$ 0	\$ 483	\$ 483

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

FAIRGROUNDS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Miscellaneous	\$ 9,000	\$ 12,914	\$ 12,914	\$
Total Receipts	9,000	12,914	12,914	
DISBURSEMENTS				
Recreation and Culture	9,000	14,129	14,128	1
Administration	2,000	2,412		2,412
Total Disbursements	11,000	16,541	14,128	2,413
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,000)	(3,627)	(1,214)	2,413
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		1,000	1,000	
Total Other Adjustments to Cash (Uses)		1,000	1,000	
Net Change in Fund Balance	(2,000)	(2,627)	(214)	2,413
Fund Balance Beginning	2,000	2,627	2,627	
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,413	\$ 2,413

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

911 FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 260,000	\$ 260,000	\$ 247,176	\$ (12,824)
Intergovernmental		63,000	63,000	
Miscellaneous	3,500	3,500	900	(2,600)
Interest	50	154	154	
Total Receipts	263,550	326,654	311,230	(15,424)
DISBURSEMENTS				
Protection to Persons and Property	215,800	244,010	203,089	40,921
Administration	58,371	69,692	57,641	12,051
Total Disbursements	274,171	313,702	260,730	52,972
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(10,621)	12,952	50,500	37,548
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(63,000)	(63,000)	
Total Other Adjustments to Cash (Uses)		(63,000)	(63,000)	
Net Change in Fund Balance	(10,621)	(50,048)	(12,500)	37,548
Fund Balance Beginning	10,621	50,048	50,048	
Fund Balance - Ending	\$ 0	\$ 0	\$ 37,548	\$ 37,548

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LEPC FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 700	\$ 819	\$ 819	\$
Total Receipts	700	819	819	
DISBURSEMENTS				
Protection to Persons and Property	700	940	222	718
Administration	50	1,382	180	1,202
Total Disbursements	750	2,322	402	1,202
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(50)	(1,503)	417	1,202
Net Change in Fund Balance	(50)	(1,503)	417	1,920
Fund Balance Beginning	50	1,503	1,503	
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,920	\$ 1,920

ROCKCASTLE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

CSEPP FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,809,499	\$ 1,967,452	\$ 1,967,452	\$
Miscellaneous		996	996	
Total Receipts	1,809,499	1,968,448	1,968,448	
DISBURSEMENTS				
Protection to Persons and Property	1,783,851	1,905,565	1,896,067	9,498
Administration	25,648	29,936	24,339	5,597
Total Disbursements	1,809,499	1,935,501	1,920,406	15,095
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		32,947	48,042	15,095
Other Adjustments to Cash (Uses)				
Transfers To Other Funds		(43,129)	(43,129)	
Total Other Adjustments to Cash (Uses)		(43,129)	(43,129)	
Net Change in Fund Balance		(10,182)	4,913	15,095
Fund Balance Beginning		10,182	10,182	
Fund Balance - Ending	\$ 0	\$ 0	\$ 15,095	\$ 15,095

ROCKCASTLE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

General Fund Debt Service exceeded budgeted appropriations by \$367,446. The County did not properly budget for and record the proceeds of a \$415,000 capital lease agreement with the Kentucky Association of Counties Finance Corporation. The proceeds of the lease purchase agreement were used to pay off a \$400,000 short term loan.

ROCKCASTLE COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

ROCKCASTLE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements (restated)	\$ 621,452	\$ 466,324	\$	\$ 1,087,776
Construction In Progress	1,402,144	829,868	(2,232,012)	
Buildings and Improvements (restated)	12,425,709	2,288,804		14,714,513
Vehicles and Equipment (restated)	1,349,907	415,741	(26,425)	1,739,223
Other Equipment (restated)	1,679,192	974,582		2,653,774
Infrastructure	7,146,472	335,604		7,482,076
 Total Capital Assets	 <u>\$ 24,624,876</u>	 <u>\$ 5,310,923</u>	 <u>\$ (2,258,437)</u>	 <u>\$ 27,677,362</u>

ROCKCASTLE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2015

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, office equipment and furniture, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-75
Buildings and Improvements	\$ 10,000	10-60
Vehicles and Equipment	\$ 10,000	10-25
Other Equipment	\$ 10,000	2-10
Infrastructure	\$ 10,000	10-60

ROCKCASTLE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ROCKCASTLE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2015

Federal Grantor CFDA # - Program Title	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Homeland Security</u>		
<i>Passed-Through State Department of Military Affairs:</i>		
97.040 Chemical Stockpile Emergency Preparedness Program	*	\$ 1,920,406
97.042 Emergency Management Performance Grants		<u>16,194</u>
Total U.S. Department of Homeland Security		<u>\$ 1,936,600</u>
<u>U. S. Department of Agriculture</u>		
<i>Passed-Through Kentucky Department for Local Government:</i>		
10.666 Schools and Roads - Grants to Counties		<u>\$ 14,380</u>
Total U. S. Department of Agriculture		<u>\$ 14,380</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,950,980</u></u>

* Tested as Major Program or Cluster

ROCKCASTLE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Rockcastle County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2015 or were deemed high risk. The major program tested was: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040).

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Doug Bishop, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Rockcastle County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Rockcastle County Fiscal Court's financial statement and have issued our report thereon dated March 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Rockcastle County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Rockcastle County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-008 to be a material weakness.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, and 2015-007.

County Judge/Executive's Responses to Findings

The Rockcastle County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon
Auditor of Public Accounts

March 22, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Doug Bishop, Rockcastle County Judge/Executive
Members of the Rockcastle County Fiscal Court

**Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133**

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited Rockcastle County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on Rockcastle County Fiscal Court's major federal program for the year ended June 30, 2015. Rockcastle County Fiscal Court's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Rockcastle County Fiscal Court's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rockcastle County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Rockcastle County Fiscal Court's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Rockcastle County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Report on Internal Control over Compliance

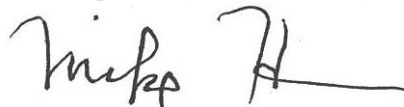
Management of Rockcastle County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rockcastle County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rockcastle County Fiscal Court's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon
Auditor of Public Accounts

March 22, 2016

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2015

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2015

Section I: Summary of Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <u>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</u> ?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

CFDA #97.040 – Chemical Stockpile Emergency Preparedness Program
--

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit

State Laws And Regulations

2015-001 The Fiscal Court Did Not Advertise For Bids On All Purchases That Exceed \$20,000

The Rockcastle County Fiscal Court did not advertise for bids for the purchase of fire equipment exceeding \$20,000 during fiscal year 2015. The fiscal court entered into a debt agreement with KACO for \$280,000 to purchase fire equipment. The original agreement was approved; however, the actual purchases were never bid.

KRS 424.260(1) states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, ...no county, ...may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." Competitive bidding ensures the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit.

We recommend the fiscal court follow the requirements of KRS 424.260. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met.

County Judge/Executive Doug Bishop's Response: Agree. Bids should have been obtained. The County will follow the statute in the future.

2015-002 The Fiscal Court Did Not Properly Budget For And Record All Debt Related Disbursements

The Rockcastle County Fiscal Court entered into a \$415,000 lease purchase agreement with the Kentucky Country Music Hall of Fame for two houses located on the grounds of the Renfro Valley complex and failed to properly budget for and record the transaction. The fiscal court obtained a short term loan for \$400,000 in July 2014 in anticipation of closing on the lease purchase within 90 days. The fiscal court properly budgeted and recorded the initial transaction; however, when the fiscal court closed on the lease purchase agreement, an additional \$415,000 was borrowed to satisfy the short term loan and pay fees associated with the agreement. The second transaction did not run through the fiscal court's bank accounts and was not included in the fiscal court's budget process or reflected on the fiscal court's Fourth Quarter Financial Report. As a result, the fiscal court failed to properly budget and record \$415,000 in debt related receipts and disbursements for the fiscal year.

KRS 68.300 states, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.280 states, "The fiscal court may make provision for the expenditure of receipts unanticipated in the original budget by preparing an amendment to the budget, showing the source and amount of the unanticipated receipts and specifying the budget funds that are to be increased thereby." Because the fiscal court failed to amend the budget according to KRS 68.280, they were not in compliance with statutes.

We recommend the fiscal court comply with KRS 68.300 and KRS 68.280 by budgeting all county disbursements, and amending the budget as necessary to reflect unanticipated receipts and disbursements including those handled by a third-party lender.

County Judge/Executive Doug Bishop's Response: This was a unique situation. The County will attempt to follow the KRS statute in the future.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

State Laws And Regulations (Continued)

2015-003 The Fiscal Court Did Not Ensure All Timesheets Were Prepared And Approved Prior To Payment

During our testing of payroll, we noted two employees were not completing a timesheet. The employees that did not have timesheets for the periods tested were the county treasurer and dog warden. Two other timesheets selected for testing had not been signed by the employee or by an approving authority. Both of these timesheets were from the Detention Center.

Improper maintenance and approval of timesheets could lead to inappropriate payment to employees for work provided. KRS 337.320 requires all employers to keep a record of the hours worked each day and week by each employee. To ensure compliance with KRS 337.320, we recommend all employees, other than elected officials, complete a timesheet. We further recommend the fiscal court review timesheets prior to payment for hours worked, accuracy of calculation, and approval by authorized personnel in order to ensure all employees are paid the appropriate amounts.

County Judge/Executive Doug Bishop's Response: Agree with timesheets, will comply in the future. However, disagree with the Fiscal Court reviewing time sheets prior to payment. It would be burdensome & not feasible to have the Fiscal Court review time sheets every two (2) weeks. This comment needs to be reconsidered!

Auditor's Reply: We recommend an employee of the fiscal court review timesheets, not the entire fiscal court.

2015-004 Deposits To The Jail Commissary Account Were Not Adequately Supported

Deposits made into the commissary (profit) account during the period July 1, 2014, through January 1, 2015, did not have appropriate supporting documentation. During the period January 1, 2015, through June 30, 2015, one deposit had no supporting documentation and another deposit was not made in a timely manner (this deposit consisted of two checks from the inmate account that had not been signed). Deposits to the inmate account could not be tested due to the lack of financial information for the inmate account.

Our review of internal controls revealed that the jail was not making daily deposits to the inmate account. The lack of supporting documentation prior to January 1 is the result of an administration change. The other two issues noted with the commissary (profit) receipts appear to be oversights by the Jail Commissary bookkeeping staff.

County Jailer Carlos McClure's Response: Beginning process of daily to every 3 days to do deposits. Kiosk machine prints out reports of deposits & receipts. Policy & procedure pending.

2015-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2015

A jail commissary financial statement was not presented to the county treasurer for the fiscal year ending June 30, 2015 as required by KRS 441.135 because the jailer was not aware of the requirement. As a result, the county treasurer and fiscal court were not made aware of the financial activity of the Jail Commissary Fund. KRS 441.135(2) states the Jailer "shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." We recommend the jailer prepare an accurate annual financial statement for the Jail Commissary Fund and present the financial statement to the county treasurer as required.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

State Laws And Regulations (Continued)

2015-005 The Jailer Did Not Present A Jail Commissary Financial Statement To The County Treasurer For Fiscal Year Ending June 30, 2015 (Continued)

County Jailer Carlos McClure's Response: Unaware of financial report. I will work with County Treasurer to assist jail in preparing financial statements.

2015-006 The Jailer Did Not Establish Procedures To Reconcile Book And Bank Balances On A Monthly Basis

The jailer maintains a manual general ledger of receipts and disbursements for the commissary (profit) account along with a checkbook register. An account balance is maintained in both of these ledgers. As of June 30, 2015, there was an \$894 difference between the ending balance in the manual ledger and the checkbook register. Additionally, there was no reconciliation between the manual ledger and the bank statement. There was evidence of a comparison to see what items had cleared, but there was no completed reconciliation between the balances. The jailer failed to adopt a policy requiring a monthly reconciliation between amounts reflected on the bank statements and the ledgers. The difference noted above could have been resolved if reconciliation procedures were established by the jailer.

Failure to reconcile ledgers can lead to financial reporting errors or misappropriations being undetected. KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual*, under minimum requirements for handling of public funds, requires monthly reconciliation of bank statements. We recommend the Jailer establish a policy requiring monthly reconciliations of ledger and bank balances to minimize financial reporting errors and the risk of undetected fraudulent activity.

County Jailer Carlos McClure's Response: Beginning process of monthly reconciliations, bank statements, ledger books along with training to accomplish goals for fiscal court.

2015-007 The Jailer Failed To Maintain Required Accounting Records For The Inmate Account

The jailer failed to maintain required accounting records for the inmate account during the fiscal year ending June 30, 2015. Inmate account financial information was maintained in the accounting software of the commissary service provider through June 2015. In July 2015, the jailer changed commissary service providers, and the financial information maintained by the previous commissary service provider was not obtained. The jailer has made several unsuccessful attempts to retrieve the information from the previous service provider.

The lack of financial information for the inmate account prevents the performance of audit procedures necessary to ensure the accuracy of amounts presented for the inmate account, and auditors could not determine if the inmate account balance was sufficient to cover the jail's fiduciary responsibility to the inmates. Additionally, the lack of accounting records could prevent the jailer from detecting fraudulent activity within the account. KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials.

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

State Laws And Regulations (Continued)

2015-007 The Jailer Failed To Maintain Required Accounting Records For The Inmate Account (Continued)

The *County Budget Preparation and State Local Finance Officer Policy Manual* outlines minimum requirements for the handling of public funds, including:

- Books of original entry for receipts and disbursements.
- Monthly bank reconciliations.
- Daily deposits to a federally insured banking institution.

We recommend the jailer obtain financial information for the Inmate Account from the previous commissary service provider including receipts and disbursements, inmate account balances, outstanding accounts receivable balances, and any other necessary financial information as of and for the fiscal year ending June 30, 2015. Information obtained should also cover the period July 1, 2015 through the date the jailer changed commissary service providers. The jailer will need this information to accurately report financial information for fiscal year 2016.

The jailer should obtain inmate balances as of the last day they used the former commissary service provider to compare to the first day of the current commissary service provider in order to verify that they began with the correct inmate balances. Further, the jailer should ensure that the total inmate balances held on the day of transfer to the new commissary vendor was transferred to the new bank account. If funds remain in the former commissary inmate bank account, the jailer should try to identify the owners of those funds. If the ownership of the funds cannot be determined, the balance should be held in escrow for three years, then escheat to the state treasury as unclaimed funds. Jail personnel charged with accounting for commissary and inmate funds should receive further training on proper bookkeeping for each of the accounts.

County Jailer Carlos McClure's Response: We have since received reports from former commissary provider. Will provide more adequate training for staff and allot appropriate time.

Internal Control - Material Weakness

2015-008 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations

Due to a limited number of employees, the Jail Commissary lacks adequate segregation of duties over receipts, disbursements, and reconciliations. The bookkeeper prepares deposits and posts these deposits to the general ledger. The bookkeeper also prepares and signs checks and posts these disbursements to the general ledger. Additionally, the bookkeeper is responsible for preparing reconciliations between the bank account and ledgers. Allowing the same employee to perform all functions relating to receipts, disbursements, and reconciliations, increases the risk of undetected errors or fraud.

Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. To adequately protect employees in the normal course of business, and to prevent inaccurate financial reporting and misappropriation of assets, we recommend the jailer implement strong oversight in these areas, either by an employee independent of those functions or by the jailer, such as:

ROCKCASTLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

Internal Control - Material Weakness

2015-008 The Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts, Disbursements, And Reconciliations (Continued)

- The jailer should periodically compare bank deposits to the daily checkout sheet and receipts ledger. Any differences should be reconciled. The jailer should document this by initialing the bank deposit, the daily checkout sheet, and the receipts ledger.
- The jailer should review supporting documentation for all disbursements made. The jailer should also compare disbursements written to the disbursements ledger. The jailer should document this by initialing the supporting documentation and the disbursements ledger.
- The jailer should set up the Commissary account to require two signatures on checks, with one being the jailer's signature.
- The jailer should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer should document this by initialing the bank reconciliation and the balance in the checkbook.

County Jailer Carlos McClure's Response: Jailer is beginning process of comparing & initialing bank reconciliations & balances in check books.

Internal Control - Significant Deficiencies

None.

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

None.

Section IV: Summary Schedule of Prior Audit Findings

None.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

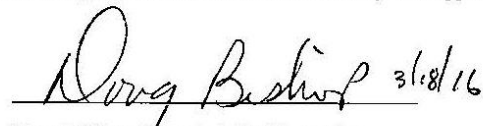
ROCKCASTLE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
ROCKCASTLE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Rockcastle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Doug Bishop, County Judge/Executive


Joseph Clontz, County Treasurer

